

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company	:	
	:	
Application for Certificates of	:	
Public Convenience and Necessity	:	
to Provide Water Service to certain	:	08-0439
areas in and around the City and	:	
County of Champaign, Illinois	:	
pursuant to Section 8-406 of the	:	
Public Utilities Act.	:	

ORDER

By the Commission:

In this proceeding, Illinois-American Water Company ("Illinois-American," "Company" or "IAWC") filed, with the Illinois Commerce Commission ("Commission"), a verified application seeking a Certificate of Public Convenience and Necessity ("Certificates") to provide water service to certain areas in and around the City of Champaign, Illinois, pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq.

Pursuant to due notice, hearings were held in this matter before a duly authorized administrative law judge of the Commission at its offices in Springfield, Illinois. Appearances were entered by respective counsel for IAWC and the Commission ("Staff"). Municipalities located within 1½ miles of the areas in question were provided a copy of the Application in accordance with 83 Ill. Adm. Code 200.150(b), and were served notice of the initial hearing. Other than IAWC and Staff, no appearances were entered at the hearings and no written entries of appearance or intervening petitions were filed.

IAWC presented the testimony of Barry Suits and Michael J. Hoffman. William H. Atwood, Jr. and Michael McNally provided testimony on behalf of Staff. At the conclusion of the hearings, the record was marked "Heard and Taken."

Applicable Statutory Authority

Section 8-406 of the Act governs the issuance of a Certificate in this matter. Specifically, Section 8-406(b) of the Act provides:

No public utility shall begin the construction of any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any extension or alteration thereof

or in addition thereto, unless and until it shall have obtained from the Commission a certificate that public convenience and necessity require such construction. Whenever after a hearing the Commission determines that any new construction or the transaction of any business by a public utility will promote the public convenience and is necessary thereto, it shall have the power to issue certificates of public convenience and necessity. The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

Proposed Certificate

Illinois-American is an Illinois corporation and a public utility within the meaning of Section 3-105 of the Act. Illinois-American provides water service in various communities in Illinois, including the Champaign District in Champaign County.

In the instant proceeding, Illinois-American seeks a certificate of public convenience and necessity authorizing "the construction, operation and maintenance of a water supply and distribution system, and the transaction by Illinois-American Water Company of the business of furnishing public water service to the public in connection therewith, in the 'Expanded Area' identified on Second Revised Exhibit A." The certificate request also includes "finished water" main extensions along Bradley Road and Rising Road within the Expanded Area.

The application was filed in response to the Commission's Order in Docket 07-0371, where the Commission stated on page 16, "The Commission finds that IAWC's proposal that it be required, within six months of a final Order in this proceeding, to request an additional Certificate that will reflect proposed water service along the finished water transmission line, as well as reflect areas where customers are being served or projects are planned or underway outside the boundaries of IAWC's service areas as identified on the map of the Champaign District service area provided to the Commission in March 2007, is reasonable and should be approved."

IAWC witness Mr. Suits testified that IAWC defined its proposed certificated area in the instant docket by including all new customers who have taken service since the March 2007 maps were filed and who were located outside of the area designated in those maps. In addition, IAWC included the area along the transmission water main, which was part of the overall new Champaign Plant project described in Docket 07-0371. He said the Company included areas most likely to be developed in the near

future based on local developers' plans. Finally, Mr. Suits stated that IAWC followed its typical practice in developing a boundary that follows established section lines and half section lines. Through the use of these established boundary lines, the Company believes it has created a better defined area that can be easily reviewed and compared to developing areas. (IAWC Ex. BS-1.0 at 4)

Mr. Suits testified that the service area's water supply depends on high-capacity wells that extract water from the Mahomet Aquifer, a deep sand-and-gravel aquifer that is the major source of water for many communities, farms and industries in central Illinois. Currently, IAWC operates two well fields, one located within and just outside Champaign, finished in the Mahomet Aquifer, and the other in Urbana, finished in the Glasford Sands. In addition, Mr. Suits indicated that IAWC is currently developing a third well field, finished in the Mahomet Aquifer west of Champaign.

Mr. Suits further testified that IAWC has sufficient capacity to serve the existing and Expanded Area for which the Certificate is being sought in this proceeding. Upon final completion of Champaign Plant and other projects proposed at the existing facilities, he stated, the ultimate rated capacity of all facilities in the Champaign District combined will be increased to 48.7 MGD in 2020. The Champaign District provided an average of 22 MGD to approximately 52,749 customers in the Champaign District in 2007. He explained that between 1980 and 2000, the average daily water use demand in the Champaign District increased by over 35 percent, and the number of total customers served increased by more than 40%. (IAWC Ex. BS-1.0 at 8)

In addition, IAWC either acquired or entered into wholesale service agreements with a number of surrounding water systems which contributed to the increase in demands and customer accounts over that time period. He said the Champaign County Regional Planning Commission anticipates that steady growth rates will continue into the future, and projects that the county population will increase by 15.6% between 2000 and 2020.

Mr. Suits stated that no municipality currently provides water to any area within the existing or proposed certificated areas and that municipalities within one and one-half miles were notified of this proceeding.

The other IAWC witness, Mr. Hoffman, testified that because any new facilities required to serve the Expanded Area would be developer-funded subject to refund, the construction costs would be initially debited to Account 131-Cash received from the developer and credited to account 252-Advances for Construction. The difference between the cash IAWC receives and the amount recorded in Account 252 will be recorded in Account 271-Contributions in Aid of Construction. As construction begins and before the plant is placed in service, IAWC will debit Account 105-Construction Work in Process and credit Account 131. When the improvements are completed and placed in service, IAWC will transfer the associated balance to Utility Plant by debiting Account 101-Utility Plant and crediting Account 105. As customers attach and IAWC pays the developer the refunds due, IAWC will debit Account 252 and credit Account

131 to reflect those payments. When the refund period expires, IAWC will transfer any balance remaining by debiting Account 252 and crediting Account 271. The depreciation rates for the Champaign District in effect or subsequently revised will be used for the new facilities. These accounting entries are shown in IAWC Exhibit MJH-2.1.

Mr. Hoffman performed an analysis intended to show the incremental revenue requirement associated with the Expanded Area. In this analysis, estimated revenues from new customers, net of refunds, were compared to costs incurred in providing service, including expenses and return on rate base. (IAWC Ex. MJH-2.2) This analysis purports to show that the estimated revenues will be sufficient to cover the costs of serving the new areas.

With respect to the requirements of 83 Ill. Adm. Code 300, "Guidelines for Right-of-Way Acquisitions," IAWC represents that it complied with all such requirements. The Commission notes that notice of the initial hearing in the instant docket was sent to landowners on the landowner list provided by IAWC.

Staff Position

Staff witness Michael McNally, a Senior Financial Analyst in the Commission's Financial Analysis Division, testified that, according to the Company's response to Staff Data Request MGM 2.01, IAWC will follow the standard water main extension rules which allow credits to customers for advance funds subject to refund for water service. He further noted that the estimated cost of construction to the Company is diminutive in relation to the Company's financial resources. In his opinion, IAWC is capable of financing the proposed construction without significant adverse financial consequences for the Company or its customers.

Staff witness William H. Atwood Jr., a Water Engineer in the Commission's Financial Analysis Division, testified that the Expanded Area is contiguous to IAWC Champaign District's currently certificated service area. He was not aware of any other utility other than that currently provides, or was willing and able to provide, new water service to the Expanded Area. He also noted that the Company already provides water service to all of the municipalities that are within one and one-half miles of the areas for which a Certificate is sought. In his opinion, the proposed construction of water service facilities is necessary to provide adequate, reliable, and efficient service to water customers within the Expanded Area, and connecting to the Company's existing water distribution system is the least-cost means of providing water service to the customers in these areas. (Staff Ex. 1.0 at 8-9)

In his testimony, Mr. Atwood noted that IAWC is the largest investor-owned water and wastewater utility in Illinois and has many years of experience managing and supervising the type of construction projects associated with providing water service. Therefore, he believes that the Company is capable of efficiently managing and supervising the construction necessary to provide water service to the proposed

certificated service area. He also found that recently completed and proposed construction of new water facilities should provide sufficient capacity to meet future demand from customers within the Expanded Area.

Mr. Atwood also agreed with the Company's proposal to use the current Rates, Rules, Regulations, and Conditions of Service tariffs for water service for its Eastern Division, Champaign District, that are on file with the Commission for the proposed customers in the Expanded Area.

Commission Conclusions, Findings and Ordering Paragraphs

The Commission finds that Illinois-American has demonstrated a need for water service in the proposed area of certification. The proposed construction in and service to the proposed area is necessary to provide adequate, reliable, and efficient service to customers in the area and is the least-cost means of satisfying the service needs of its customers within the meaning of Section 8-406(b) of the Act. The Commission also concludes that Illinois-American is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision of the construction.

The Commission also concludes that, as required by Section 8-406(b)(3) of the Act, Illinois-American has demonstrated that it is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

The Commission also observes that certification of the Expanded Area will result in more clearly defined service area boundaries than presently exist.

With respect to rates and other tariffs for the Proposed Area, Illinois-American proposes that the Rates, Rules, Regulations, and Conditions of Service contained in the currently effective tariffs for the Eastern Division-Champaign District will be applicable to customers located in the areas for which certification is sought.

The Commission concludes that this proposal is reasonable and it is hereby approved. As explained above, IAWC performed an analysis intended to show the incremental revenue requirement associated with the Expanded Area. In the analysis, estimated revenues from new customers, net of refunds, were compared to costs incurred in providing service, including expenses and return on rate base.

The analysis purports to show that the estimated revenues will be sufficient to cover the costs of the serving the new area. This consideration is relevant, because if revenues in a newly certificated area fail to recover the revenue requirement associated with that new area, existing customers may be adversely affected in the future due to incrementally higher rates attributable to that revenue shortfall.

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) Illinois-American is a corporation engaged in the business of furnishing water and sanitary sewer service to the public in portions of the State of Illinois and is a public utility within the meaning of Section 3-105 of the Act;
- (2) the Commission has jurisdiction over Illinois-American and the subject matter of this proceeding;
- (3) the facts recited and conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings herein;
- (4) issuance of Certificates of Public Convenience and Necessity for the area certificated below will promote the public convenience and is necessary thereto, as will the construction of water facilities described above, and the requirements of Section 8-406(b) of the Act have been met with respect thereto;
- (5) a Certificate of Public Convenience and Necessity should be granted to Illinois-American as described below, subject to the conditions set forth herein;
- (6) as conditions of the certificate granted herein, Illinois-American shall comply with all determinations contained above.

IT IS THEREFORE ORDERED that pursuant to Section 8-406 of the Act, Illinois-American Water Company is hereby granted a Certificate of Public Convenience and Necessity as follows:

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

IT IS HEREBY CERTIFIED that the public convenience and necessity require the construction, ownership and maintenance by Illinois-American Water Company of a public water supply and distribution system, including finished water main extensions along Bradley Road and Rising Road, and the provision of public water services to the public in connection therewith, in the "Expanded Area" and along the main extension routes in the Expanded Area, as shown in maps identified as Second Revised Exhibit A attached to IAWC Exhibit BS-3.0 filed February 11, 2009 and as Exhibit 1 to IAWC Exhibit R-1.0 filed April 3, 2009, and as described in Revised Exhibit B attached to IAWC Exhibit BS-3.0 filed February 11, 2009.

IT IS FURTHER ORDERED that the water rates and the rules, regulations, and conditions of service of Illinois-American Water Company's Champaign District shall apply to water service rendered in the newly certificated area.

IT IS FURTHER ORDERED that Illinois-American Water Company shall use the approved Champaign District depreciation rates for facilities in the newly certificated area.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 29th day of July, 2009.

(SIGNED) CHARLES E. BOX

Chairman